

Additional Comment to
Education and Family Benefits Tax Reform Working Group

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Currently some educational institutions use IRS Notice 87-31 to avoid reporting grant and scholarship income on form 1098-T.

- *All amounts paid to U.S. CITIZENS and RESIDENT ALIENS in the form of scholarships, fellowships, grants, and financial aid are not required to be reported to the IRS by the payors. (IRS Notice 87-31)*

Source: <http://www.irs.gov/Individuals/International-Taxpayers/Withholding-Federal-Income-Tax-on-Scholarships,-Fellowships,-and-Grants-Paid-to-Aliens> [accessed April 15, 2013]

All students who receive grants that are not explicitly tax-exempt are obligated by law to report any portion not directly applied to qualified education expenses as income, potentially taxable to the recipient.

Students who attend institutions that DO report Pell and other grants have the information (as does the IRS) to report these grants. Students at institutions that DO NOT report these grants don't have ready access to the information, nor does the IRS.

The "optional reporting" of grants and scholarships creates a very uneven playing field. While all students are "required by law" to report this as income, some have ready access to the data (as does the IRS) and some don't (and neither does the IRS), depending on the policy followed by their school.

Recommendation:

Tax reform related to education should clarify and remove optional reporting requirements. Make it either mandatory to report or not reportable; but don't allow the institution to choose.

For what it is worth, the instructions for preparing 1098-T's for tax year 2013 include:

Box 5. Scholarships or Grants

Enter the total amount of any scholarships or grants that you administered and processed during the calendar year for the payment of the student's costs of attendance. Scholarships and grants generally include all payments received from 3rd parties (excluding family members and loan proceeds). This includes payments received from governmental and private entities such as the Department of Veterans Affairs, the Department of Defense, civic, and religious organizations, and nonprofit entities. However, see *Exceptions*, earlier.

The *Exception* referred to applies to the requirement to file a 1098-T, not its content. This instruction appears to require that scholarships and grants be included in Box 5 if a 1098-T is filed. **As a result it is in conflict with IRS Notice 87-31.**

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